What is the History of the Social Security System in the United States?

- The Social Security Act of 1935 established a national social insurance plan to provide economic security to the nation's workers.
- The two major provisions of the Act relating to the elderly were Title I--Grants to States for Old-Age Assistance, and Title II--Federal Old Age Benefits.
- Title II has become what is known today as Social Security and now provides cash benefits to retired and disabled workers and their families, as well as survivors of deceased workers.

The Creation of Social Security

The United States experienced a complex set of demographic and social changes early in the 20th century. America was older and more urban. The economy changed from an agrarian society to a more industrial one. Fewer people lived with their extended families. In 1929, the stock market crashed and the nation slipped into an economic depression. Due to these various changes, the traditional strategies for the provision of economic security were becoming increasingly fragile.

The decade of the 1930s found America facing the worst economic crisis in its modern history. These circumstances lead to many calls for change. A number of plans were introduced that would assist the elderly in poverty. Francis E. Townsend devised a plan where the government would provide a pension of $200 per month to every citizen age 60 or older. Senator Huey Long's "Share the Wealth" program called upon the federal government to guarantee every family in the nation an annual income of $5,000 to provide for life's necessities. In 1932, however, President Roosevelt introduced his economic security proposal based on social insurance. This new idea of social insurance, which was already prevalent in Europe, became an innovative alternative.

On June 8, 1934, the Committee on Economic Security was appointed by President Roosevelt to confront the crisis. In slightly more than six months, the Committee developed a Report to Congress that recommended a national system of unemployment and old-age benefits. On January 17, 1935, the President introduced the report to both Houses of Congress for simultaneous consideration. Acting on the

Committee's recommendations, Congress enacted the Social Security Act of 1935 and President Roosevelt signed it into law on August 14, 1935.

The original old-age insurance system provided cash benefits to the insured[1] worker when he/she retired at age 65. The benefit was based on taxable wages, but a weighted formula was used to provide a greater return on payroll taxes paid in to low-wage earners. At that time, no benefits were provided for spouses and children. If a worker attained age 65 but was ineligible for benefits or died before reaching the age of 65, Social Security provided a lump sum payment to the worker or his/her estate. Collection of payroll taxes began in 1937 and benefit payments were scheduled to commence in 1942. This provided time to build up the Social Security Trust Fund. Any surplus funds collected were to be invested in U.S. government securities.

1930s/1940s: Family Protections Added

In 1939, Congress enacted legislation that shifted Social Security's focus from protection of the individual worker to protection of the family. The new legislation provided benefits to the following individuals based on a set proportion of the worker's benefit:

- aged wives/widows;
- young children under 18 of a retired or deceased worker;
- young widows caring for a child; and
- parent(s) age 65 or older who were dependent on the deceased worker for at least one-half of their support (The eligibility age was reduced to 62 for both male and female parents by 1961).

In addition, the amendments altered the financing of the program and allowed initial benefits to be paid out in 1940 instead of 1942, as originally scheduled.

Following the implementation of the 1939 amendments, the system remained essentially unchanged throughout the 1940s.

1950s: Worker Coverage Expanded & Disability Insurance Added

The 1950 amendments made substantial changes to the scope of Old-Age Survivors Insurance (OASI). This legislation created a new benefit formula, extended coverage to about 10 million additional workers[2] and greatly increased benefit levels. Wage credits were also provided to those in military service. To finance these improvements, the amendment increased the contribution and benefit base amount and created a revised schedule for gradually increasing tax rates for employers, employees and the self-employed.

Four years later in 1954, another expansion in worker coverage took place. Covered workers now included:

- farm self-employed workers;
- professional self-employed workers (except lawyers, doctors, dentists and other medical groups);
- most home workers; and
- some state and local government employees,[3] except firemen and policemen.

By the mid-1950s, 20 years after the enactment of Social Security, almost 90 percent of workers were given protection under the program. In addition to this expansion, the amendments increased benefit levels, raised the earnings base, and provided a new benefit formula.

In the early 1950s there was a growing recognition that the dangers of economic insecurity due to disability were at least as great as the difficulties faced by retirees. As a result, the 1954 amendments began the process of protecting workers from income loss due to disability. Congress enacted a disability "freeze" provision on a disabled worker's earnings record. While no cash benefits were payable under the provision, workers who were permanently disabled and met the insured status test could have their Social Security earnings frozen so as to exclude periods of disability when computing subsequent retirement or survivors' benefits. This provision prevented periods of disability from reducing or completely negating their retirement and survivors' benefits.

Social Security Disability Insurance (DI) was created under the amendments of 1956. The amendment established a cash program beginning in 1957 for totally disabled workers aged 50-64. To finance the program, the legislation created a Disability Trust Fund where an additional .25 percent of contributions from both employer and employee were allocated. The amendments also provided benefits:

- to a dependent child, age 18 or over, of a retired or deceased worker if the child became disabled before the age of 18; and
- to female workers and wives, available at age 62 instead of age 65, but at a reduced level to take into account the longer collection period. At age 62, widows and dependent parents could receive benefits at an unreduced rate.

In 1958, the program extended benefits to the dependents of disabled workers and increased scheduled payroll taxes by .25 percent on employers and employees each, ultimately rising to 4.5 percent by 1969.

1960s: Disability Program Expanded & Medicare Began

By the mid-sixties, the Old-Age Survivors, and Disability Insurance program (OASDI) was essentially the program that exists today. Coverage was nearly universal; almost 80 percent of all individuals retiring in the years following would be eligible for benefits. Two amendments were passed in the early 1960s. In 1960, the age requirement for disability, which was originally limited to those who were at least 50, was eliminated. In 1961, as had been the case with women, male retirees were now allowed to collect reduced benefits at age 62 instead of 65. In addition, male dependent parents and widowers could collect unreduced benefits at age 62 as well.

Throughout the next four years, benefit levels continued to increase, as did the earnings base. In 1967, Social Security began providing monthly cash benefits for disabled widows and disabled dependent widowers at reduced rates as early as age 50.

1970s/1980s: COLAs Introduced & Solvency Problem Addressed

In 1972, Congress approved legislation that introduced automatic inflation adjustments to the Social Security system. The amendment provided that benefits would be automatically increased with a cost of living adjustment (COLA) when inflation (as measured by the Consumer Price Index) rose 3 percent or more from the last benefit increase. Although the legislation was passed in 1972, the first automatic COLA adjustment took effect in June 1975. In addition, the legislation automatically increased the maximum amount of earnings covered under the system. Another major change was implemented 1972. Men and women would now have their retirement benefits computed the same way. Prior to the legislation, a man needed more Social Security credits to qualify for retirement benefits than a woman the same age. In addition, if his earnings were the same as hers, the man would receive a lower benefit because his earnings were averaged over a longer period of time. Benefit levels were also increased in both 1972 and 1974.

In the mid-seventies, Social Security developed serious financing problems. Cost projections began to show that that the tax rates scheduled by law would be inadequate to meet the long-range costs of the program. The 1977 amendments addressed these financial problems. They increased future revenues by significantly raising the tax rates and the earnings base. The benefit formula that was raising initial benefits too rapidly was also modified. These changes were thought to have improved the financial condition of the program significantly. However, the economy was much worse than expected in the years immediately following the 1977 amendments. The United States experienced a period of high inflation and high unemployment along with low wage growth. These economic conditions created a drain[4] on Social Security and the trust funds began to decline rapidly.

In order to address these serious problems, President Reagan and congressional leaders formed a bi-partisan panel. In March 1983, Congress incorporated the Panel's recommendations as well as additional provisions into the 1983 amendments to Social Security. The amendment gradually increased the normal retirement age from age 65 to age 66 by 2009 and 67 by 2027 and expanded coverage to newly hired federal civilian employees and those working in non-profit organizations. In addition, the new provisions accelerated scheduled tax increases for employers and employees and included up to half of Social Security benefits in the taxable income of higher income beneficiaries (this money would then be transferred to the Social Security trust funds).

The disability program also experienced its own set of difficulties during the seventies. During that decade the program began to experience a rapid growth in expenditures. It soon became very clear that this growth posed a serious threat to the solvency of the Disability Insurance Trust Fund. Concerned with the growth in the DI program, Congress enacted legislation in 1980 to control this growth and deal with other administrative issues within the program. The major provisions in the 1980 amendments were a reduction in benefits for younger disabled workers and a limit on disability family benefits.

In response to concerns about the economic hardships on the disabled resulting from the 1980 amendments, Congress enacted legislation in 1984 that eased the disability review process. These new provisions allowed for continued benefit payments, with certain limitations, for those whose medical condition had not improved but were under review. Stipulations that develop uniform standards for disability determinations that would be used at all levels of adjudication were also created. In order to create a more standard set of regulations regarding disability status, a temporary delay of mental impairment reviews was implemented until regulations creating new medical listings were published.

1990s: Social Security Becomes Independent & Solvency Debated

While there were a number of amendments legislated in the current decade, there were two that made major changes to the system. The 1993 amendments made up to 85 percent of Social Security benefits subject to income tax for individuals whose income, plus one-half of their benefits, exceed $34,000 (single) and $44,000 (couple). All proceeds from this tax go to the Hospital Insurance (HI) Trust Fund. In 1994, Congress passed the Social Security Administrative Reform Act of 1994 that established the Social Security Administration as an independent agency effective March 31, 1995.

ENDNOTES

[1]An insured worker was one who had worked at least 5 years in covered employment and earned at least $2,000 in total wages in those jobs before they reached 65. Covered employment applied only to workers in commerce and industry.

[2] Categories of workers are: farm and domestic workers; self employed workers (except farmers and professionals); federal civilian employees not covered under a federal civil service retirement system; some non-profit employees and some state/local workers.

[3] At this time, state and local workers were provided with optional coverage under Social Security. In order to be covered, workers must have already been covered under a state or local pension plan, and the majority of all employees who were members of that pension plan must have agreed to Social Security coverage.

[4] Benefit expenditures were rising because of high inflation and high unemployment that led to reduced payroll taxes.